



## SMBs in the digital race for the customer

Commissioned by Salesforce

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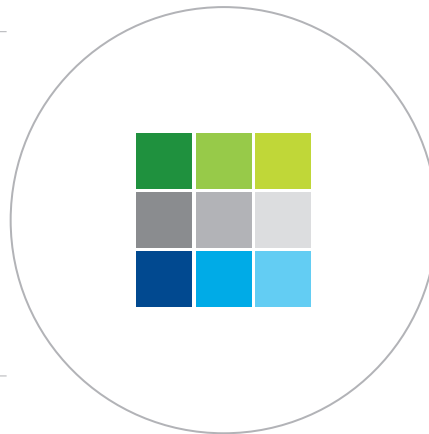
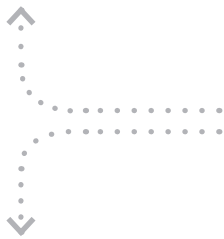


increase in spending  
on online services leads  
to an average of **\$100,000**  
increase in revenue



50%

of all sales will  
involve some digital  
tools in five years



Digital technologies  
can help small  
businesses improve  
customer experience



Adding customer  
communication channels  
could lead to an average  
of **\$160,000** increase  
in revenue



Less than

20%

of SMBs are using  
social media to engage  
with customers

# Executive summary

The way customers in Australia and New Zealand engage and transact with businesses continues to change. The proliferation of 'digital tools' such as mobile, social and cloud means these changes are occurring rapidly and are driving investment decisions by savvy small and medium sized businesses (SMBs).

SMBs that respond to changing customer expectation and invest appropriately in digital, stand to reap benefits including increases in both revenue and customers. For example, a 1% increase in online services spending is estimated to lead to a 2.9 percentage point increase in annual revenue growth. For an average small to medium business this translates to a revenue increase of nearly \$100,000 a year.

These SMB adopters of digital technologies are gaining competitive advantage by obtaining quality customer insights, which drive their marketing strategy, allowing them to effectively engage with new and existing customers for additional sales.

Digital is no longer a luxury reserved only for sophisticated organisations but is accessible for most SMB businesses. In today's customer-centric market, it's critical for SMBs to establish a proactive digital presence to improve overall business performance, relevance and profitability.

This report provides detailed insights on how SMBs can effectively harness digital technologies to improve the customer experience and ultimately grow their business. It also reveals hidden competition in the digital space and the critical steps SMBs need to take to avoid being left behind.

**Deloitte** Access Economics

# Improving the customer experience through digital tools

## Digital technology is most commonly used by SMBs to find new customers

### Perceived benefits of technology

29%

Use technology to find new customers



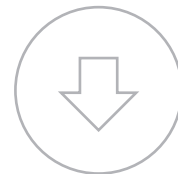
11%

Doing business 24/7



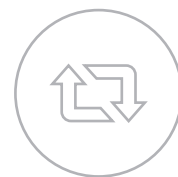
11%

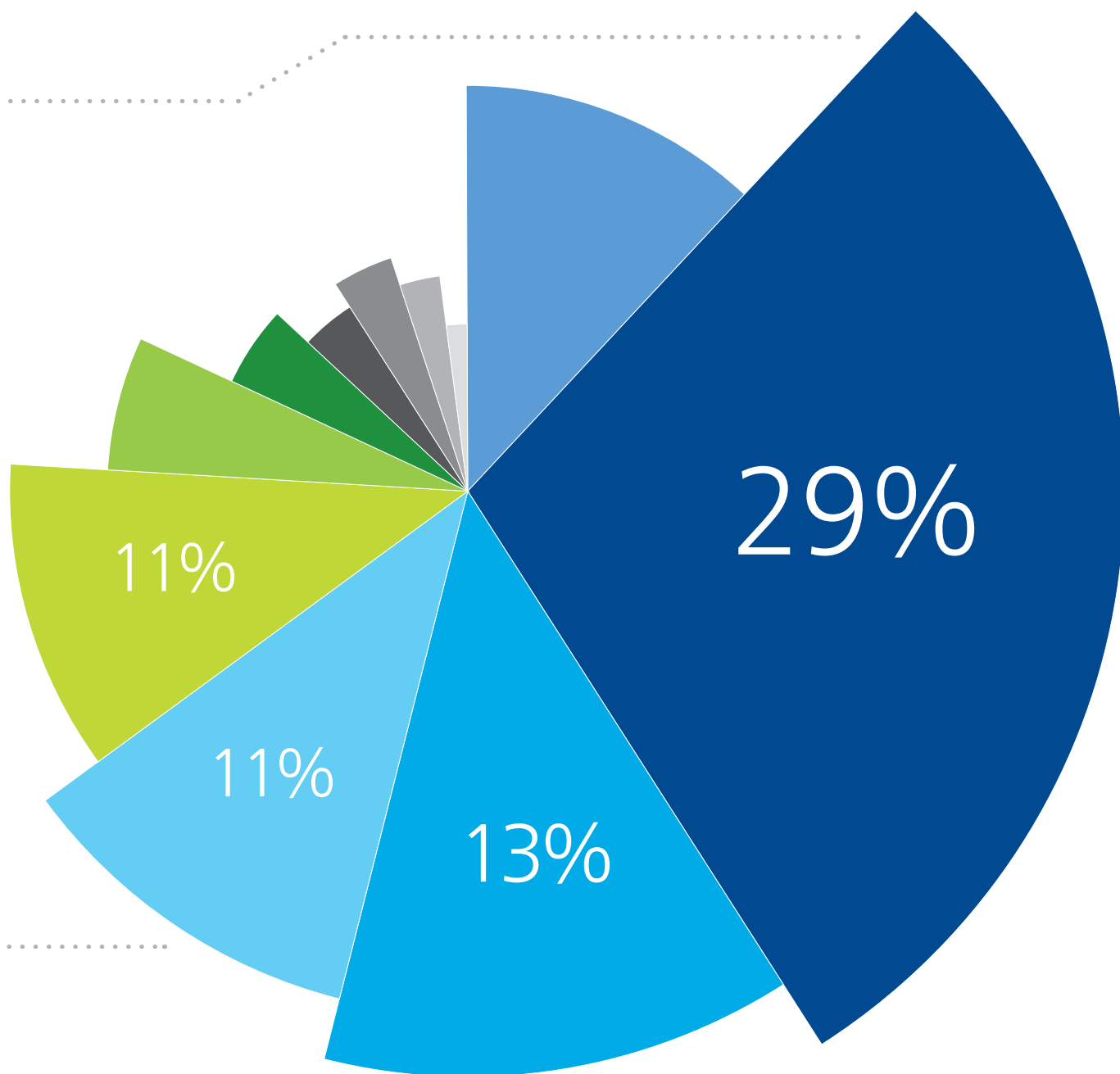
Reduction in costs



13%

Meeting customer demands





# Improving the customer experience through digital tools

## 1.1 Keeping up with your customers

### Key takeout

Australian and New Zealand SMBs are increasingly using digital tools and channels to improve their customers' experience – and plan to do more in the future.

Those SMBs that already make use of digital lead generation report lower costs for obtaining new customers than other SMBs and also report improvements in overall performance.

While this presents substantial disruption to how SMBs communicate with their customers, it also presents a range of opportunities for SMBs to capture new customers.

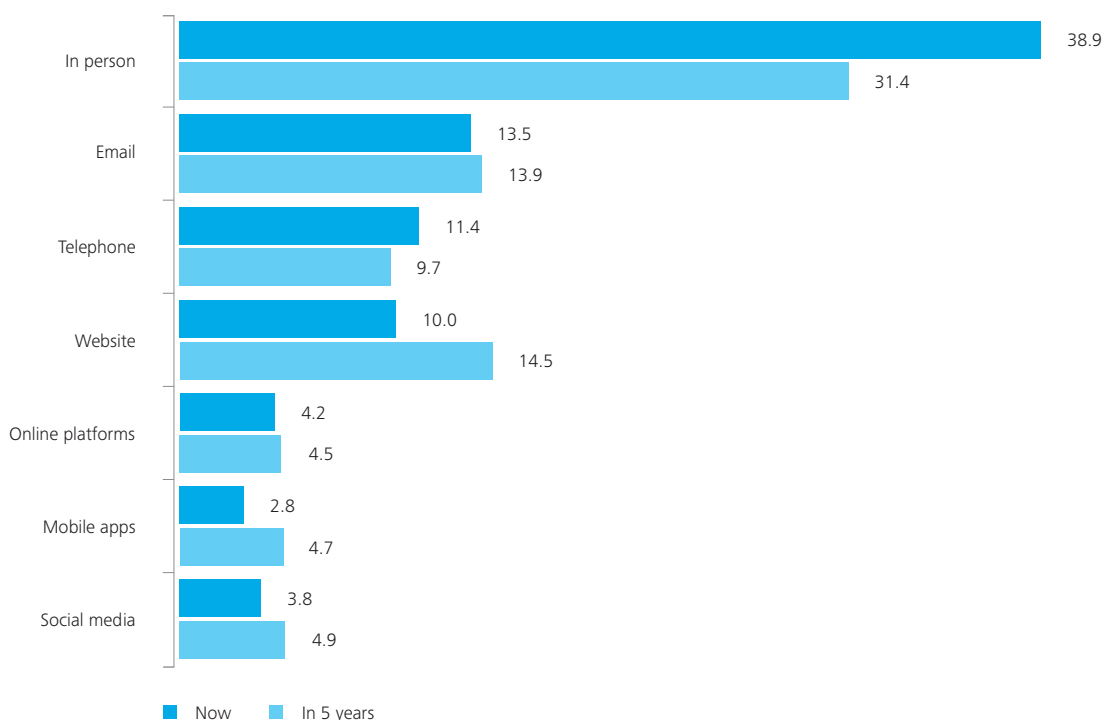
In Australia and New Zealand, the primary way SMBs interact with their customers is still face-to-face. However, this is likely to change over the next few years, with more than 90% of SMBs expecting a decline in customer transactions conducted in person. **Digital transactions are expected to rise;** with more than half of SMBs believing that their communications via digital channels (including websites, email, social media, mobile apps and third party platforms) will increase.

The proliferation of digital technology and devices has changed how SMBs interact with their customers. Recent estimates suggest that some 70% of connected customers use three or more devices, including laptops, desktop, and smartphones.<sup>2</sup>

Chart 1.1 shows the average proportion of face-to-face transactions is expected to decrease from 39% to 31%, while the proportion of website based transactions is slated to increase from 10% to 15%.

**Chart 1.1: In five years, the proportion of transactions conducted in person is expected to decline**

Proportion of transactions (%)



Source: Deloitte Access Economics, Stancombe Research and Planning



Customers also use different kinds of devices in different ways. For example, of those customers who own tablet devices in 2014, 65% said they use it at least once a day, primarily for checking emails (69%) and searching for information online (70%).<sup>3</sup> Customers on smartphones spend the majority of their time on social networking sites and text messaging apps.<sup>4</sup>

Since customers use devices differently, a successful digital engagement strategy needs to provide access tailored to each device, combining responsive email communication with apps optimised for the smaller mobile screen. For example, around half of all Australians access social networking sites on a weekly basis, with 24% saying they use social media to find information about a particular business, and 20% saying they would use it to research products and services.<sup>5</sup> The ability to tap this market presents substantial opportunities for SMBs looking to grow.

Consequently, transactions involving online digital tools have become an important part of the SMB landscape.

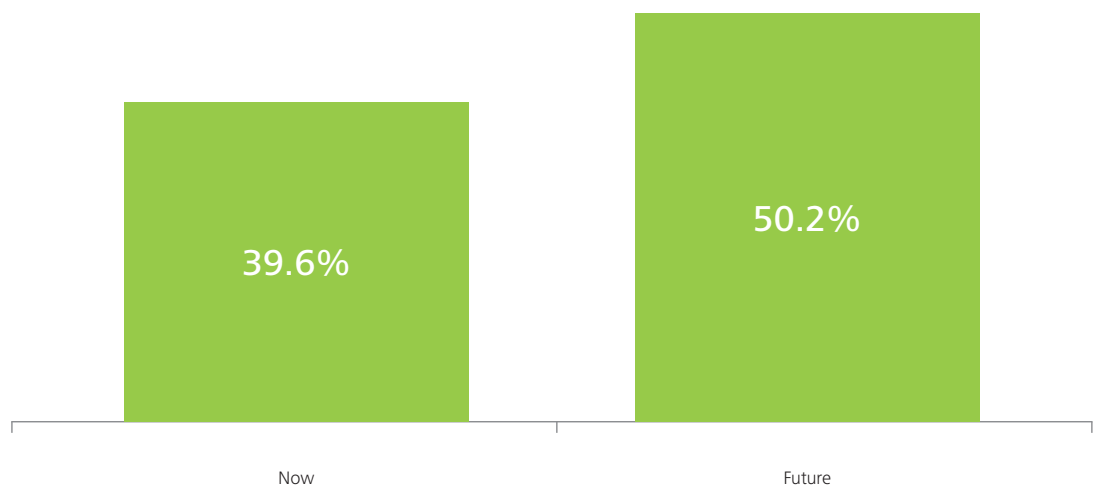
Almost 40% of all current transactions for those SMBs surveyed involve the use of some kind of 'digital tool' – which includes mobile apps, email, company websites, social media and third-party platforms (such as eBay). In some cases these purchases will be made directly via a digital tool, while in others the digital interaction might provide the customer with information and drive them towards the business' physical location.

Not surprisingly, we found that increasing digital adoption is yielding significant performance dividend for SMBs. For example, section 2.1. shows that SMBs that communicate with their customers over multiple channels enjoy around 4.8 percentage point higher revenue growth a year, or almost \$160,000 a year for the average SMB in our sample.

SMBs predicted that the digital adoption trend will continue to grow, with the proportion of sales involving digital tools to rise to more than half of all sales activity in just five years, as shown in Chart 1.2.

**Chart 1.2: The proportion of online sales is expected to grow in the future**

Proportion of online transactions (%)



Source: Deloitte Access Economics, Stancombe Research and Planning

The figures presented above exclude transactions identified by SMBs as 'other channels'

#### Quick statistic

SMBs predict half their sales will involve digital tools within the next five years.

## 1.2 Connecting with customers through social media

### Key takeout

SMBs that use social media in a wider variety of ways – for advertising, for customer service, for targeted offers – generate increased revenue of more than \$30,000 a year.

The rising popularity of social media and changing consumer behaviours online present new opportunities for SMBs to communicate, sell, and provide service to their customers. Around half of all Australians access social networking sites on a weekly basis, with 24% saying they use social media to find information about a particular business, and 20% saying they would use it to research products and services.<sup>6</sup> SMBs need to adapt their online and social media footprint to engage with their customers through these channels and stay connected.

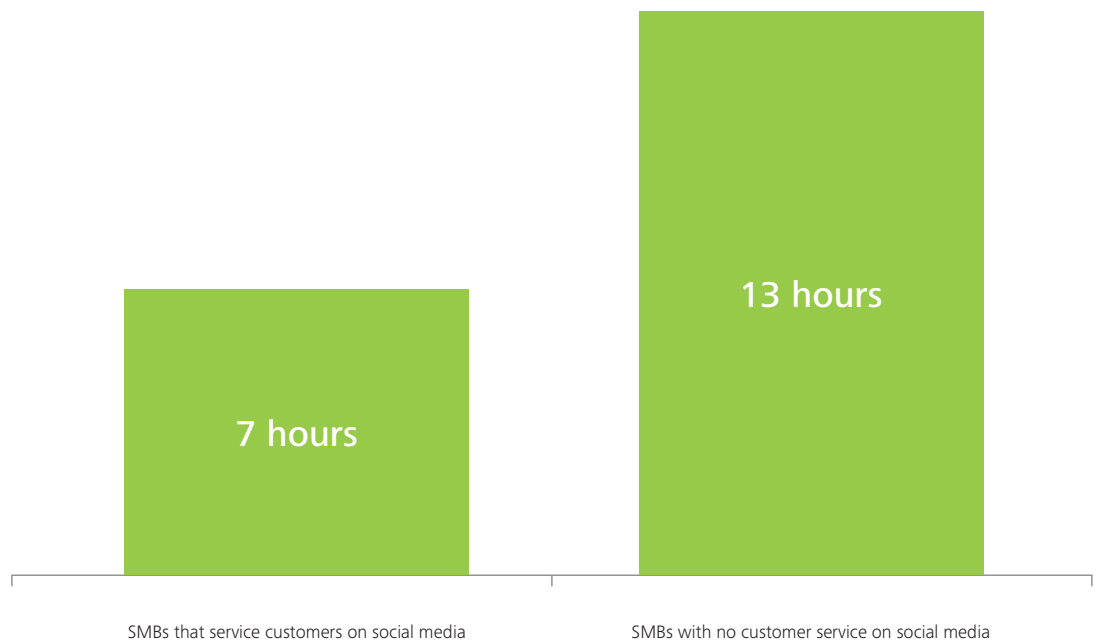
In tandem with rising social media use, customer expectations of business are also increasing. Eighty-nine per cent of consumers have expressed a tendency to stop doing business with a company after experiencing poor customer service.<sup>7</sup> Customers say that **it takes an average of 12 positive customer experiences to make up for one negative experience.**<sup>8</sup>

SMBs are gradually adapting, adjusting their own service expectations to match those of customers. For example, more than half of all SMBs in our survey believe that the ideal response time to customer enquiries is less than an hour, with 20% thinking the ideal is less than 10 minutes.

SMBs that provide customer service over social media are able to deliver a superior customer experience, including faster and more personalised responses. Chart 1.3 shows that SMBs that actively use social media as part of their customer service strategy are able to respond to customer queries nearly six hours faster on average. Despite these clear benefits, we found that **less than 20% of SMBs are using social media** to actively engage with customers.

Chart 1.3: Responses to customer enquiries are much faster on social media

Weighted response time (hours)



Source: Deloitte Access Economics, Stancombe Research and Planning

In addition to customer service activities, other business functions can be performed more effectively using social media, including advertising and brand development. According to Salesforce's special report in 2015, 18% of SMBs say their company's primary revenue source is directly linked to social media marketing.<sup>9</sup> Not surprisingly our analysis suggests that each additional business capability that SMBs perform over social media is associated with an average 0.9 percentage points higher revenue growth. Applying this to the average revenue reported by SMBs in our survey, **the reward for expanding SMBs' use of social media is more than \$30,000 a year.**

The opportunities offered by social media could reach beyond delivering superior customer experience. The ability to nurture customers' advocacy on behalf of the business could significantly increase market reach and effectiveness of customer services. Globally, 84% of consumers rely on recommendations from people they know and 68% trust consumer reviews they see posted online.<sup>10</sup> SMBs can gain substantial dividends from engaging with consumers online as positive customer experiences are shared via customers' personal and social media networks.

**Quick statistic**

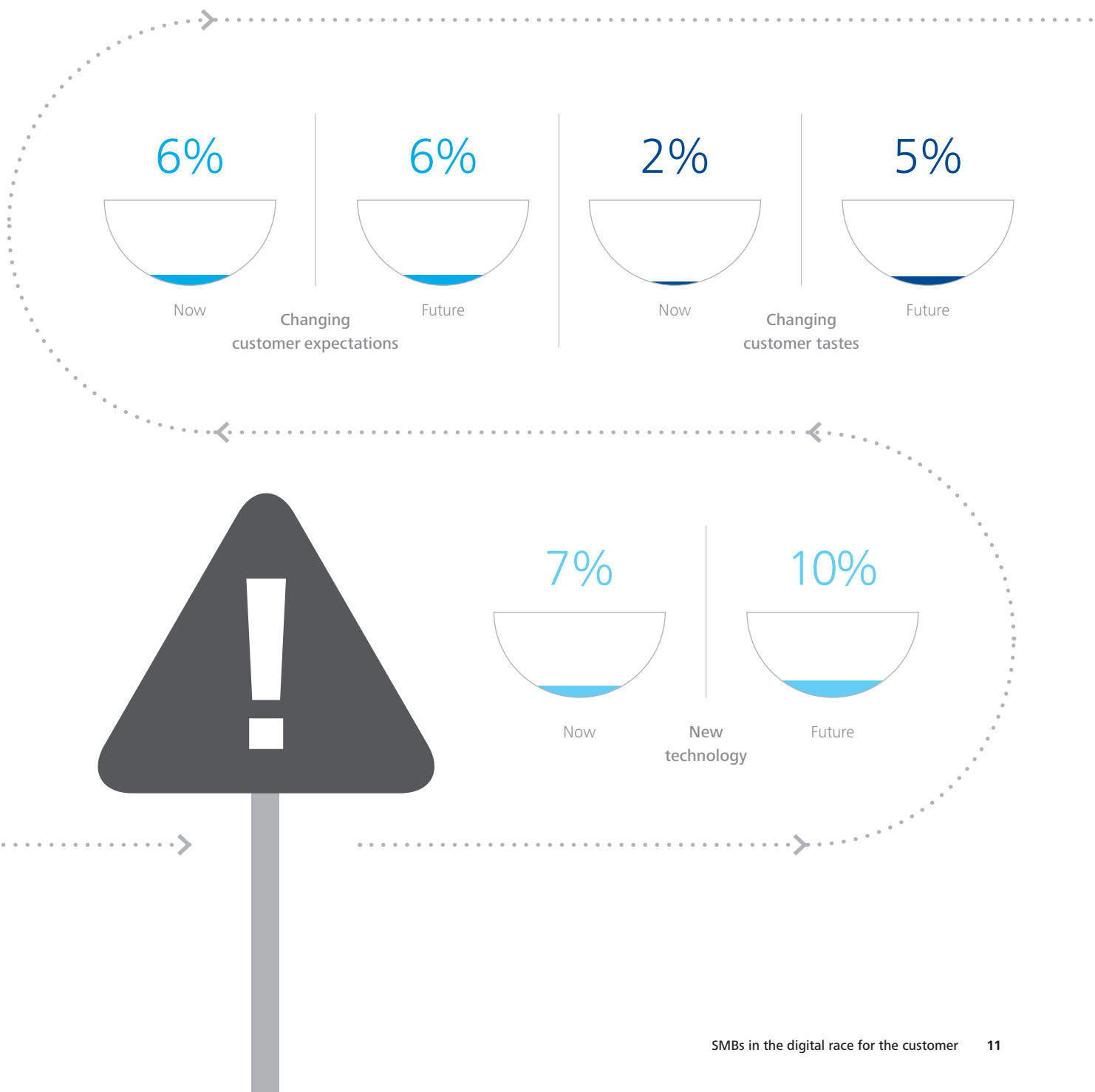
Less than 20% of SMBs are using social media to actively engage with customers.

## Digital challenges and competition

The threat of local competition is expected to decrease, but international competition and new technology are expected to be bigger threats in the future

### Perceived competitive threats





# Digital challenges and competition

## 2.1 SMBs that don't invest in digital tools risk being left behind

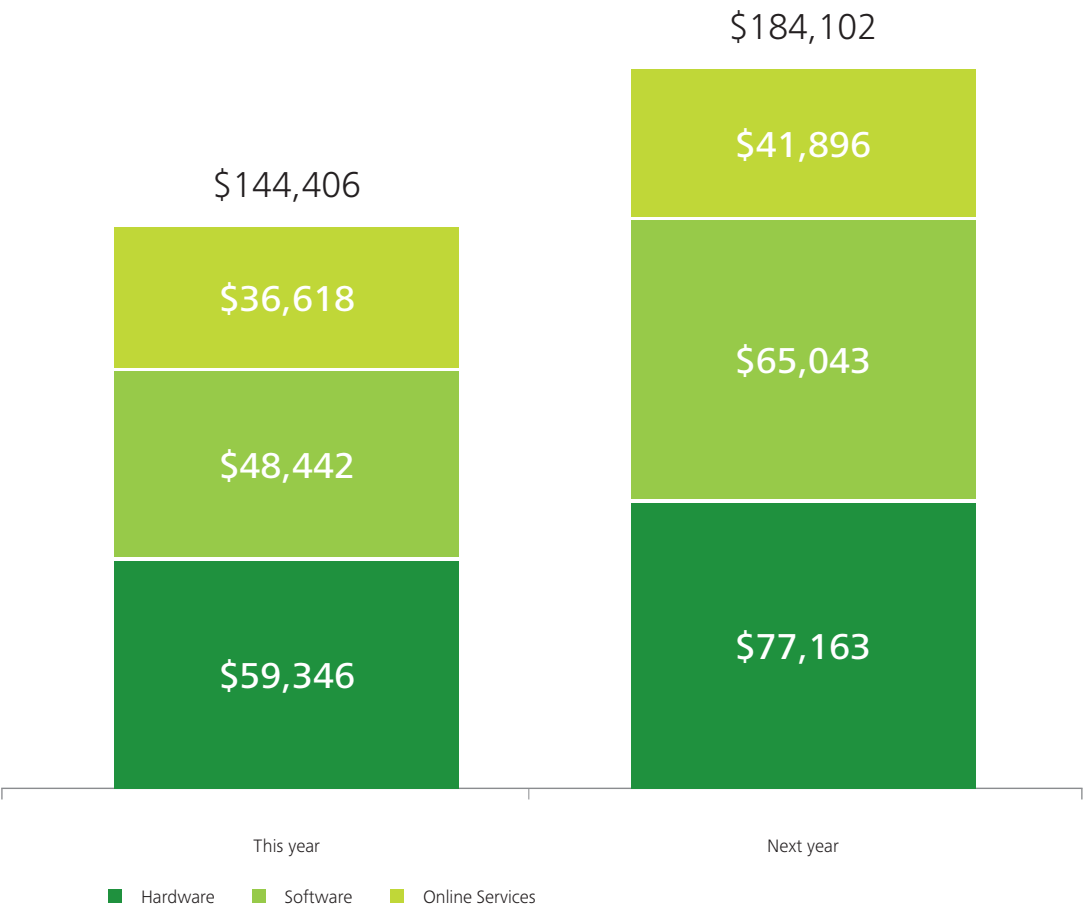
**Key takeout**  
SMBs are responding to the digital challenge by investing more in IT – but their current plans involve too much spending on hardware and software, and not enough on innovative online services.

SMBs are responding to an increasingly digital marketplace by investing in Information Technology (IT). In the last year, the average SMB in Australia and New Zealand spent 6% of their average total revenue – \$144 thousand out of \$2.5 million – on IT.

The technology portfolio for SMBs across different sectors can be distinctly different depending on their internal IT capabilities and the nature of their operations. To standardise our analysis, we focus on SMBs' expenditure on technology tools and services provided by a third party. These can be split across the following categories:

- Hardware, e.g. laptops, webcams, printers, mobile phones
- Software, including software licenses, proprietary software developments and mobile phone apps
- Online services, such as cloud platforms, social media, online marketing, websites.

Chart 2.1: Investment in software expected to grow faster than investments in hardware or online services



Source: Deloitte Access Economics, Stancombe Research and Planning

It is important to note that it can be hard for SMBs to distinguish between different technology products and services. We consider the results presented above as only an indicative estimate of their true spending. However, it remains clear from Chart 2.1 that overall spending on IT by SMBs is set to grow across the board over the next year, with the average SMB respondent spending an additional 14% or \$40,000 on IT overall.

SMBs understand the importance of building their digital capabilities, and plan on increasing spending across all three categories – hardware, software and online services – but their spending is growing at very different rates. SMBs' hardware spend is set to rise by 30%, software by 34%, and online services by only 14%.

Australian and New Zealand SMBs are embracing hardware spending over online services to a much greater extent than larger players in international markets. Indeed, planned increases in hardware spending are high relative to global estimates for SMBs, which are around 7-8% per year. The planned growth in online services spending also falls well below global business projections of a 19% annual increase.<sup>12</sup>

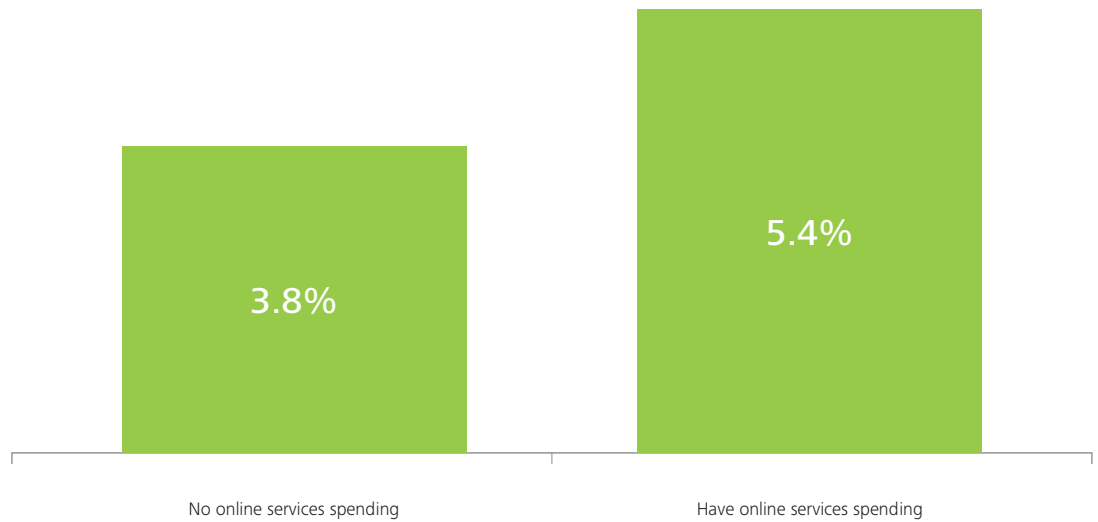
This is in line with Australia and New Zealand's relatively low rankings in the Asia Pacific SME Cloud Computing Attractiveness Index for 2015 compared to rival South East Asia economies.<sup>13</sup> The index ranked countries based on the SMB market's readiness to adopt cloud computing solutions, including factors such as demand drivers, affordability, support and overall market size.

The IT spending growth for SMBs in Australia and New Zealand is focused on hardware and software, with a relatively small portion of spend for online services. This could be a missed opportunity for SMBs. This report finds that, after controlling for business size and industry, each additional 1% increase in online services spending leads to a 2.6% increase in the proportion of sales conducted via digital channels, and a 2.2% **increase in digital lead generation**. SMBs with higher spending on online services also report a lower cost of obtaining new customers.

Chart 2.2 shows that SMBs which spend more on online services also experience **faster revenue growth**, with each 1% increase in online services spending leading to a 2.9 percentage point increase in revenue growth. For an average SMB in our study, this translates to almost \$100,000 additional revenue a year.

Chart 2.2: SMBs that invest in online services have higher revenue growth

Average revenue growth (%)



Source: Deloitte Access Economics, Stancombe Research and Planning

**Quick statistic**

Each 1% increase in online services spending leads to a 2.9 percentage point increase in revenue growth.



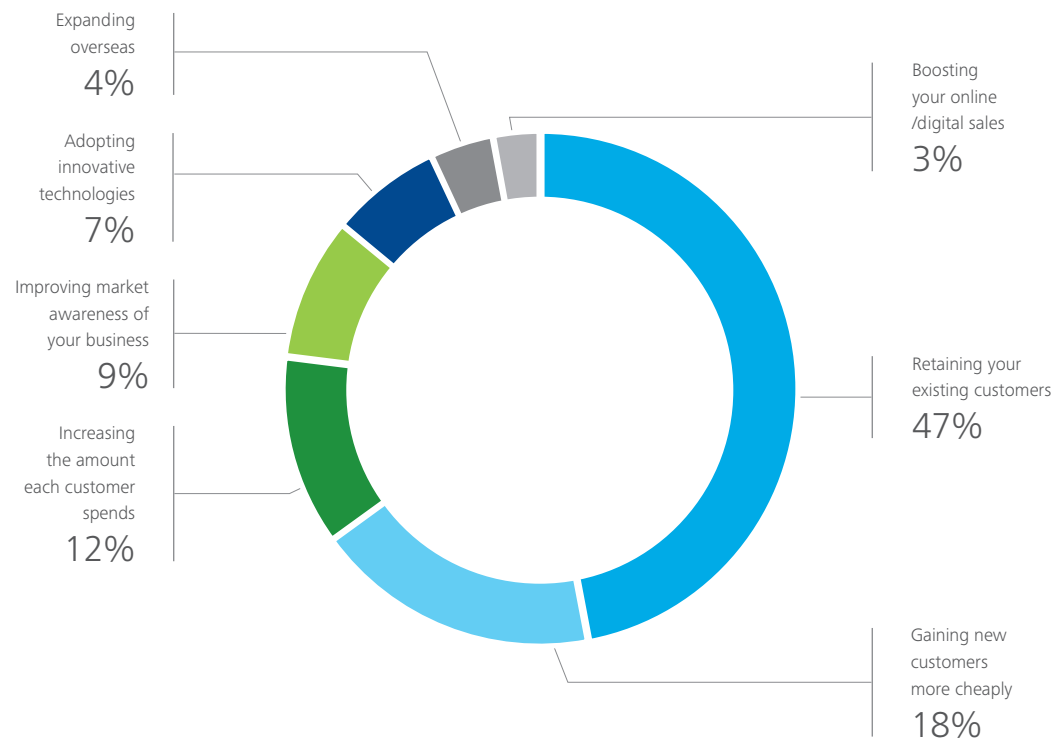
## 2.2 A lack of customer data is leaving SMBs stumbling in the dark

### Key takeout

Not all digital competition comes in the form of online sellers, online sales is only one way to drive SMB success. Digital tools can also be used to improve the face-to-face customer experience.

Most SMBs recognise the importance of customer retention, with 47% of SMBs ranking 'retaining existing customers' as the number one factor for their success and more than 70% ranking it in their top three priorities, as shown in Chart 2.3. Strengthening existing customer relationships remains a priority for many SMBs. In fact 30% of SMBs said they aimed to increase the proportion of returning customers within the next five years and aimed to have an additional 22% of their sales from repeat customers over that same period.

Chart 2.3: SMBs rate retaining existing customers as the most important factor for achieving growth



Source: Deloitte Access Economics, Stancombe Research and Planning

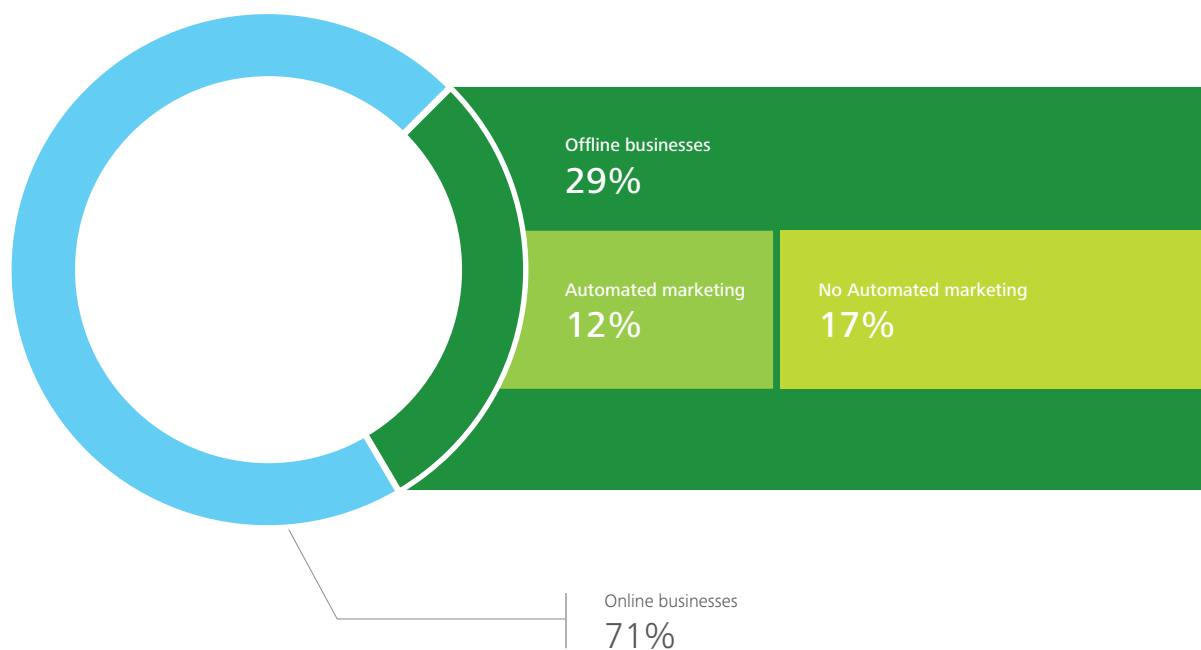
Despite these aspirations, a significant proportion of SMBs remain uninformed about their customers. **More than 27% of SMBs say that they don't know what proportion of their sales are to new customers.** This proportion rises to 48% among SMBs with no digital tools or transactions. Not surprisingly, the lack of even the most basic data about their business and customers is associated with a longer than average response time to customer enquiries and complaints.

Furthermore, the ability to capture and analyse customer data presents a unique opportunity to SMBs in adapting to changing customer tastes and expectations. The standard image of 'digital competitor' – an online-only

business which is able to undercut its bricks-and-mortar SMBs by reducing overheads and offering lower prices – is being challenged by a new form of digital competitor, where digital tools are used not to undercut rivals on price, but to improve customer relationships. Successful SMBs are using digital tools to capture customer information, analysing information to build personalised relationships, and pre-empting customer demands.

This report finds a significant proportion (29%) of 'offline' SMBs (SMBs with no digital sales) are taking advantage of automated marketing technologies, rising to 40% in the next five years (Chart 2.4).

Chart 2.4: Almost half of offline SMBs still use digital tools



Source: Deloitte Access Economics, Stancombe Research and Planning

Similarly, more than 24% of SMBs who do not make any digital sales also report using digital channels such as email, their website and social media to engage with customers and respond to their enquiries and complaints (though the bulk of their enquiries come face-to-face or over the telephone).

Many more SMBs plan on using digital channels within the next five years with social media use set to triple over that period.

This implies that many SMBs are beginning to adopt digital tools and channels, even without moving their transactions online.

For many SMBs this may be because they sell highly personalised products or services, which do not adapt well to online sales. If these SMBs are able to harness the kinds of relationships and loyalty benefits larger chains have realised using customer data, this will give them a significant competitive edge.

As more SMBs take advantage of digital strategies such as marketing automation and online customer engagement, those which don't know whether their customers are returning risk being left behind.

#### Quick statistic

Among SMBs with no digital sales: 29% use automated marketing, 24% use digital communications with customers, 6% use digital lead generation.

#### Customer loyalty schemes as CRM

Customer loyalty schemes are an example of CRM. These schemes have a range of benefits:

- Generate detailed purchase histories
- Tie purchases to an individual or family
- Capture data across multiple locations and sales channels
- Predict interest in new products based on existing consumption patterns.

With the right digital tools, loyalty program data enables SMBs to engage in 'micro-marketing', tailoring offers and interactions to the customer's history and demonstrated interests.<sup>14</sup> Done properly, these kinds of targeted communications can boost customers' feelings of loyalty and in-store spending.<sup>15</sup>

Loyalty and tailored marketing schemes require computing and data management resources sitting behind a business' traditional storefront. Data needs to be processed and stored in a way which makes it easy to retrieve at the beginning of customer interactions. With the right IT support, SMBs can analyse and mine their customer and other data for early indications of emerging trends, and to predict customers' future needs.

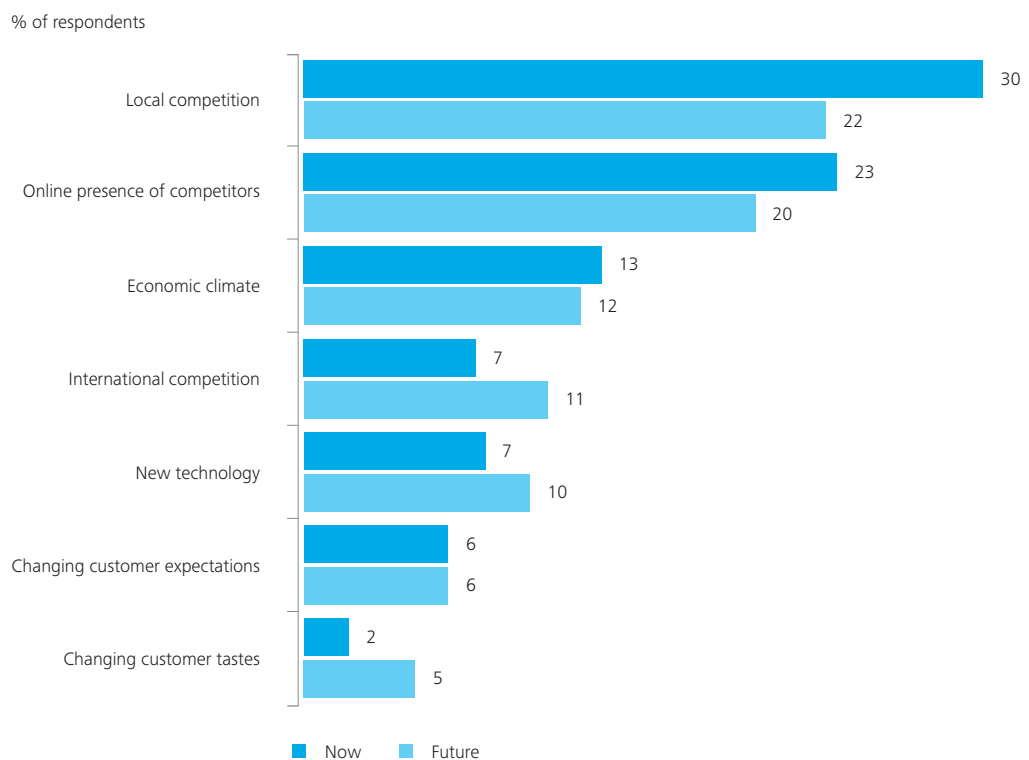
### 2.3 Digital competition is here to stay

#### Key takeout

While many SMBs are adapting to the threat from online competitors, a lot of SMBs ignore growing digital competition in their industries.

SMBs increasingly view online competition as a competitive threat. Online competition was identified by 23% of SMBs as their biggest current threat, with another 17% ranking it in the top three. Only local competition, at 30%, was a bigger concern for SMBs.

Chart 2.5: Local competition is expected to be less of a threat in the future, but the threat from international competition is expected to increase



Source: Deloitte Access Economics, Stancombe Research and Planning

**SMBs that ranked online competition as their number one threat** had a different profile from other SMBs. They were more likely to be active online, generating sales and leads through digital channels. They also predicted more growth in their online and digital sales over the next five years than other SMBs.

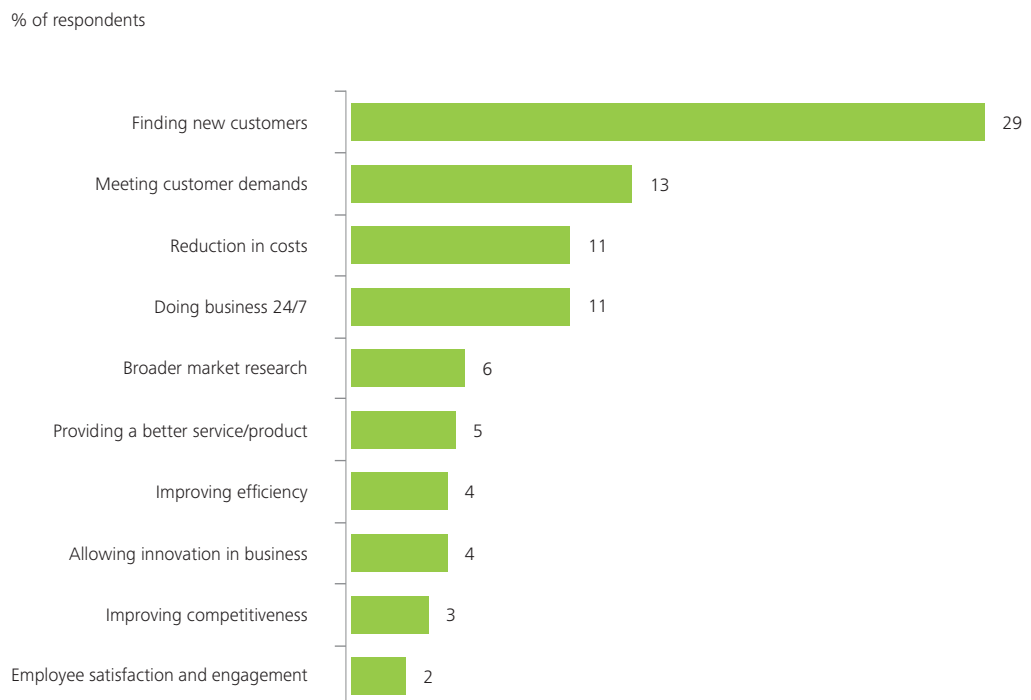
These SMBs also respond more quickly to customer questions and complaints – reflecting their greater use of digital communications channels. They also cite faster **ideal response** times than other SMBs. This suggests that they have a higher estimate of consumers’ expectations than other SMBs.

Over the next five years, SMBs expect international competition and the integration of new technologies to replace some of their concerns about online competition, while also predicting that the gap between online and local competitive pressures will shrink as shown in Chart 2.5.

#### The digital gap for customer loyalty

In Section 2.2, we noted that retaining existing customer relationships is a top priority for many SMBs but many lack the tools and capability to effectively capture consumer information to nurture these relationship. Perhaps not surprisingly, we found that there is a perception among SMBs that digital technologies – such as online CRM platforms – are mainly useful for adding new customers, rather than for customer service and retention. In fact, 29% of SMBs ranked ‘finding new customers’ as their primary goal when acquiring digital technologies, more than any other category.

**Chart 2.6: The greatest perceived benefit of technology for SMBs is finding new customers**



Source: Deloitte Access Economics, Stancombe Research and Planning

Digital technology has a real role to play in helping SMBs retain, engage and build loyalty with their existing customers. Digital engagement works best when it is integrated into a business' operations rather than viewed as an add-on or optional extra. Digital engagement is about more than just getting the attention of potential new customers, and it can be used to drive every stage of the customer's interaction with a business, from creating a first impression to building an ongoing relationship.

For example, building repeat customers partly hinges on the quality of customer service SMBs deliver. In 2013, 62% of global consumers switched service providers due to poor customer service experiences, up 4% from the previous year.<sup>16</sup> This suggests that customers are increasingly willing to reassess their relationship with a business as a result of poor service. As we've shown in section 1.2, digital technologies such as social media and online CRM platforms can help SMBs monitor these relationships closely, stay connected with customers and better service their needs, and upsell through existing relationships.

Other significant benefits SMBs associate with digital technologies are reductions in costs via automation and improvements in productivity.

### Digital laggards

At the other end of the digital engagement spectrum are **SMBs that have no digital sales or leads capabilities**, and no plan to develop them over the next five years. These SMBs make up 22% of respondents. On average they have been in operation longer and are much less likely to view online competition as a threat.

These 'digital laggards' come from a range of industries, but most (24% of the total) are drawn from the retail and construction sectors. However, these industries are not immune to online competition. Sixty per cent of retailers and 62% of construction SMBs have at least some digital contacts leading to sales, and SMBs from these sectors expect their level of digital customer engagement to rise by 18% (construction) and 31% (retail) over the next five years.<sup>17</sup>

Online reputation is also an issue for digital laggards; a lack of awareness of online reputation can greatly harm a business even if it views itself as being exclusively offline. According to a survey conducted by Dimensional Research,<sup>18</sup> 90% of SMBs who recalled reading online reviews claimed that positive online reviews influenced buying decisions, while 86% said buying decisions were influenced by negative online reviews.

Compared to the group who view online competition as their number one threat, the digital laggards have a very different view of customer expectations. Their estimate for the ideal length of time to respond to customer queries is significantly longer. They also report that, on average, their existing response times are either ideal or even faster than the ideal. In reality, **just 7% of consumers say that customer service typically exceeds their expectations.**<sup>19</sup>

This suggests a group of SMBs that are disconnected metaphorically as well as literally from modern consumers. While a slow response to a query or complaint won't always drive away a loyal customer immediately, poor responsiveness undermines the customer relationship.<sup>20</sup>

SMBs operate in an environment where competitors are trying to improve, and to approach customers in new ways. The view that the business is already perfect is an invitation to competitors to win customers with better, faster and more tailored services.

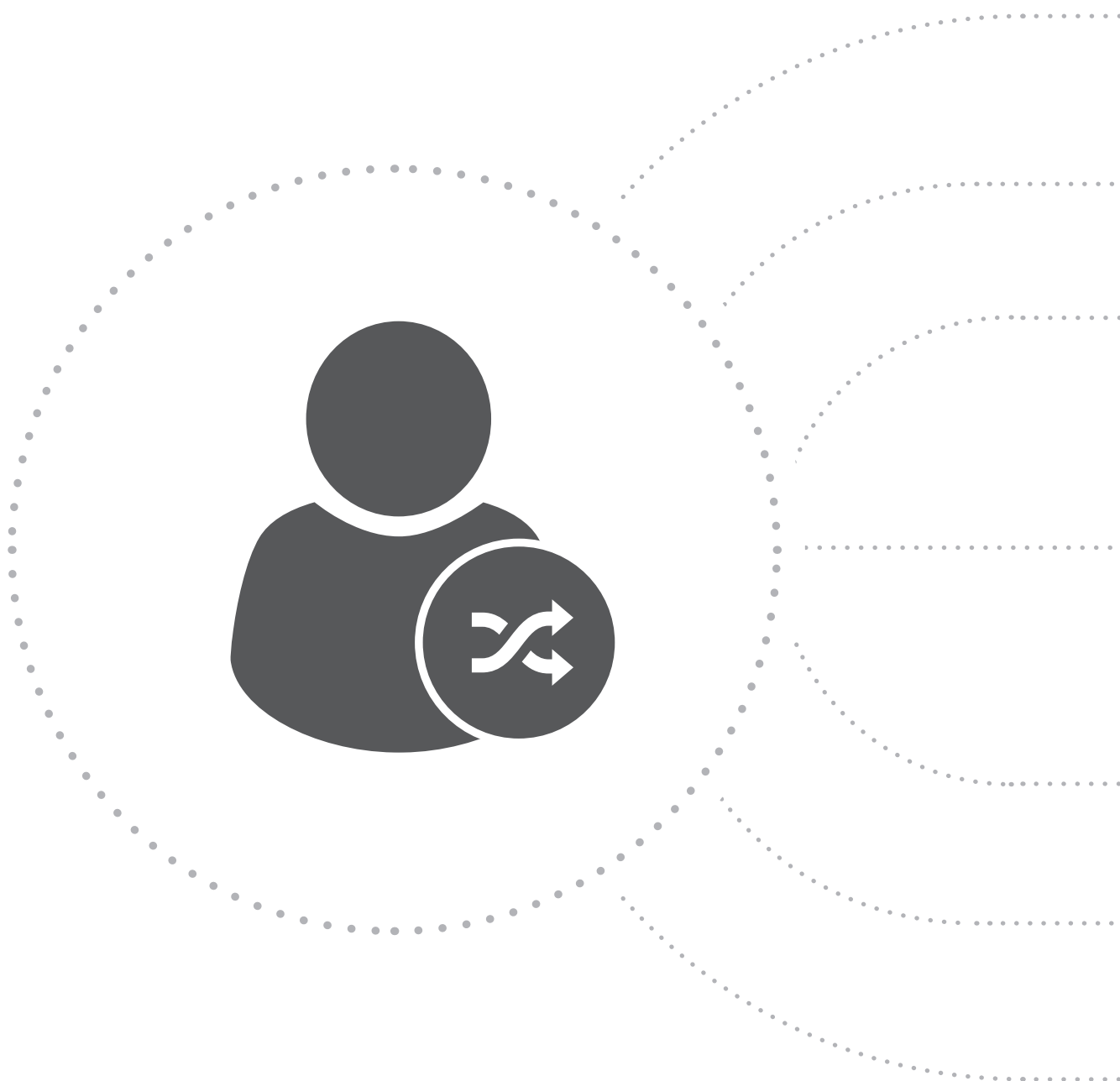
#### Quick statistic

Online competition was identified by 23% of SMBs as their biggest current threat.

## Digital opportunities for SMBs

In five years, transactions are expected to shift from in-person to online

Proportion of customer transactions by channel







In-person

38.9%



Now

31.4%



In 5 years



Telephone

11.4%



Now

9.7%



In 5 years



Website

10%



Now

14.5%



In 5 years



Mobile app

2.8%



Now

4.7%



In 5 years



Email

13.5%



Now

13.9%



In 5 years



Online platforms

4.2%



Now

4.5%



In 5 years



Social media

3.8%



Now

4.9%



In 5 years

# Digital opportunities for SMBs

### 3.1 Multi-channel presence

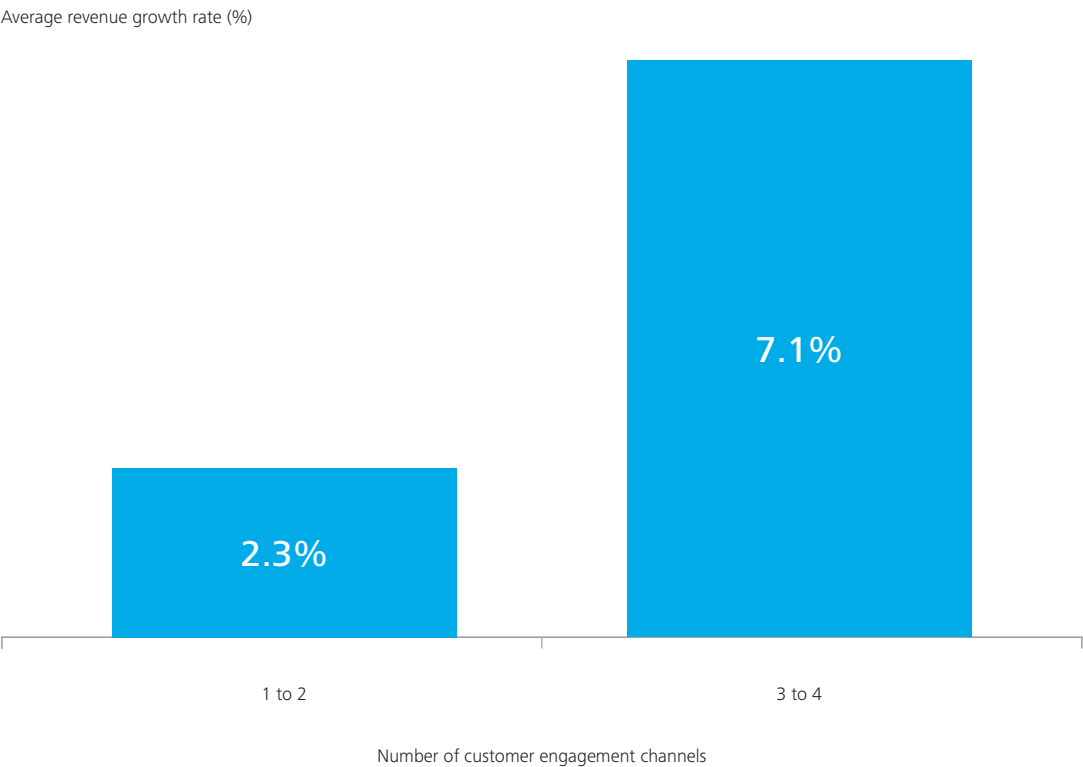
**Key takeout**  
SMBs that provide customers with multiple communication channels boost digital sales and revenue.

As we noted in previous sections, the ability to engage with these customers through different channels in the right way could help SMBs to deliver a better customer experience, boosting customer retention and attracting the attention of new customers.

Indeed, we found that SMBs that are engaging with their customers through a larger number of sales channels could expect an increase in their rate of revenue growth.

Chart 3.1 shows a specific example of this relationship, comparing SMBs with only one or two sales channels (telephone and face-to-face, for instance) with those who employ three to four channels (such as adding email and website communications). As shown, the latter group experiences a 4.8 percentage point boost to their revenue growth rate or around \$160,000 a year for a typical SMB in this study, relative to SMBs with fewer communications and sales channels.

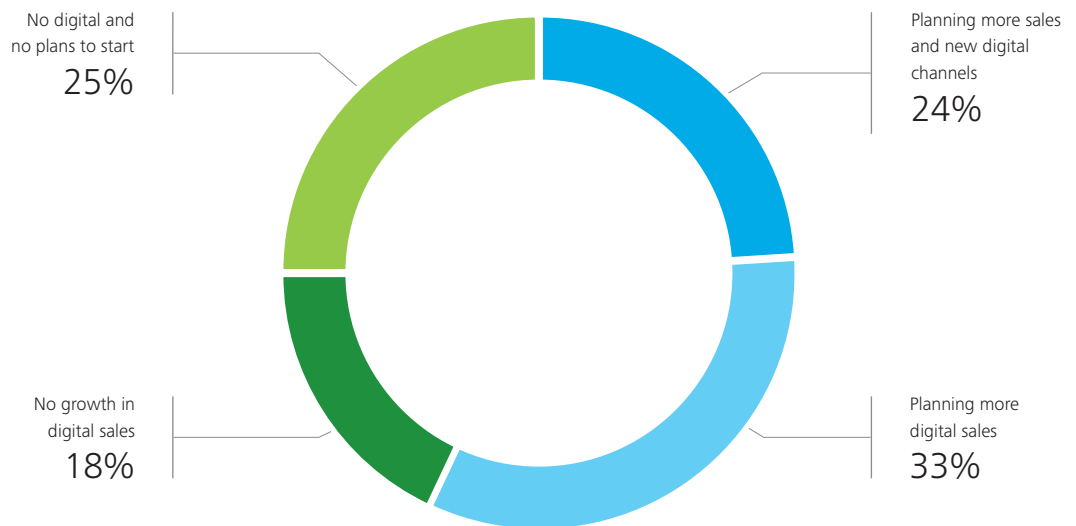
Chart 3.1: SMBs with more customer engagement channels experience higher revenue growth



Source: Deloitte Access Economics, Stancombe Research and Planning

Opportunities to increase sales through digital tools is not new to SMBs and more than half (57%) already have digital expansion plans in the pipeline. What's more interesting is how SMBs are planning to achieve higher digital share of their revenue. Chart 3.2 shows that 24% of SMBs said they would add additional ways of interacting with their customer digitally. A closer look revealed that the highest growth will be in mobile integration, with 13% of SMBs aiming to add mobile channels within the next five years, and mobile sales (including in-store sales researched via mobile phone) set to grow by more than 70%.

**Chart 3.2: More than half of SMBs are planning more digital sales and/or new digital channels**



Source: Deloitte Access Economics, Stancombe Research and Planning

This would suggest that SMBs are starting to recognise that customers demand on-the-go access to their products or at least access to information about the range, availability and accessibility of the goods in their physical stores. Increasingly, digital engagement will be thought about in a 'mobile-first' way,<sup>21</sup> with SMBs working to fit the key elements of their business' sales pitch through a smaller window of opportunity.

Customers are already using their phones to locate, research, compare and share their purchases. Near-ubiquitous mobile phone usage should be familiar to SMBs, since the vast majority of them already use some form of mobile device in the running of their business.

There will be similar growth in **digital lead generation** (including using email and social media to nurture leads and opportunities). Seventy-six per cent of SMBs use digital lead generation, and 44% plan on increasing their use of these tools over the next five years. Those SMBs that already make use of digital lead generation report **lower costs** for obtaining new customers than other SMBs, reflecting their ability to engage with customers quickly and cheaply.

In many industries, SMBs which lack some kind of digital presence will become effectively invisible to many consumers, relying on third party platforms for brand awareness (such as Yelp or TripAdvisor).

#### Quick statistic

Adding two extra communications channels provides a 4.8 percentage point boost to annual revenue growth.

### 3.2 Scale and grow with marketing automation

#### Key takeout

The more SMBs use marketing automation – for capturing customer behaviour, tracking interactions and personalising materials – the faster they grow and the easier they find adding new customers.

#### What is marketing automation?

Marketing automation is the process of generating sales leads through personalised and targeted customer outreach, performed with the assistance of software which analyses and identifies different types of consumers. Effective marketing automation processes have the potential to shorten sales cycles and improve conversion rates.

#### In this report we identify four discrete marketing automation capabilities:

- Capturing online behaviour patterns of customers and potential leads
- Delivering personalised marketing campaigns
- Offering a personalised web experience
- Implementing and monitoring social media campaigns.

Marketing is more able to engage its target audience when it is tailored to their interests. Personalised promotional emails have 29% higher open rates, 41% higher click rates and generate more than six times the revenue per email than non-personalised emails.<sup>22</sup>

Customers increasingly expect to be able to communicate with a business via multiple channels and have their details and interests recalled automatically. Even for unsolicited marketing, 23% of consumers reported that they want advertisements to be tailored to the content they are viewing, while 21% expect advertisements to be tailored to their location.<sup>23</sup> These percentages will likely rise significantly over the next several years as consumers become more used to contextual marketing.

In Australia and New Zealand, the adoption of marketing automation by SMBs is still in its infancy.

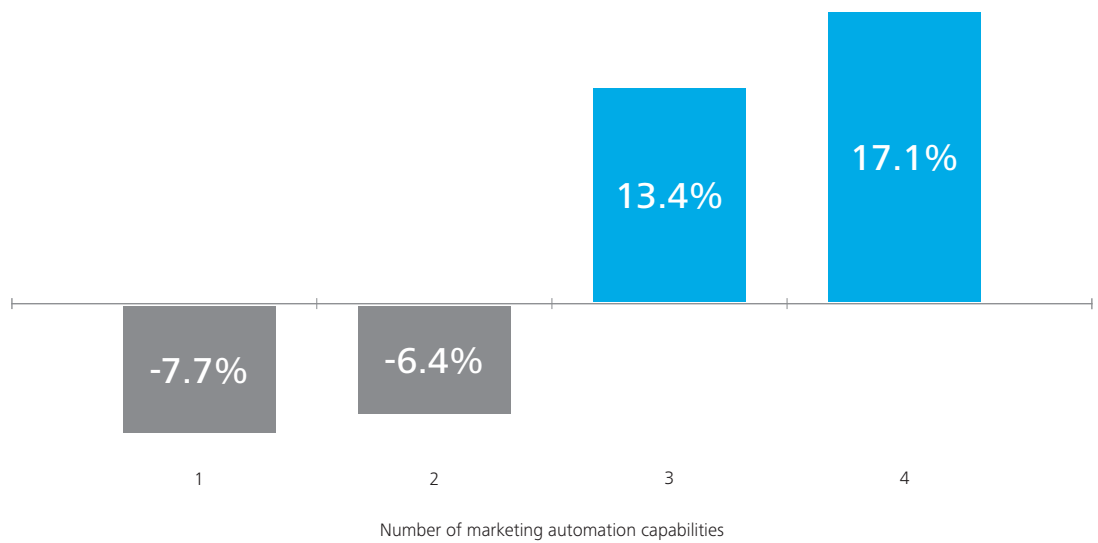
Our research shows that just under a quarter of SMBs have the capability to capture online customer behaviours and only 15% have the ability to personalise online customer experiences.

However, SMBs are increasingly aware of the importance of one-on-one communication with the customer throughout the purchase cycle. **Close to a quarter of SMBs plan to acquire additional marketing automation capabilities** in the next five years.

Those SMBs that are currently making use of marketing automation enjoy a substantial dividend in the form of reduced customer acquisition cost and increases in revenue growth – particularly if they make use of marketing automation in a number of different ways. For each marketing automation capability SMBs have, they can expect an average 0.8 percentage point increase in revenue growth and 0.13% reduction in customer acquisition cost (see Chart 3.3).

**Chart 3.3: SMBs with more marketing automation capabilities experience higher average revenue growth**

Average revenue growth rate (%)



Source: Deloitte Access Economics, Stancombe Research and Planning

Note: this diagram does not account for other variables that may have contributed to SMBs' revenue growth. Figures quoted in the text rely on more sophisticated regression analysis, which corrects for other ways in which SMBs using marketing automation might differ from the average SMB.

This suggests that marketing automation achieves its goals in helping SMBs add new customers at lower cost and that this, in turn, drives revenue growth. Some of these gains may also be driven by increased spending per customer, as customers are presented with options tailored to their areas of interest when visiting a business' website.

By using marketing automation more, and in more different ways, SMBs can reach a wider variety of potential customers with tailored marketing materials.

**Quick statistic**

For each marketing automation capability SMBs have, they can expect an average 0.8 percentage point increase in annual revenue growth.

### 3.3 Make customer-centric decisions with CRM

#### Key takeaway

Customer Relationship Management can help meet rising customer demands – SMBs that use CRM understand customer expectations better, respond to customers more rapidly and experience faster revenue growth.

Customers have increasing access to online and mobile sales, meaning that they can shop from a larger number of SMBs, more quickly and more often. This puts pressure on SMBs to rapidly respond to customer enquiries and customer complaints, or risk losing customers to better prepared rivals.

Customers contact businesses in a variety of different ways – in person, over the phone, via email or company websites, over social media and using mobile apps or text messaging. Some SMBs also make use of third-party Customer Relationship Management software or services to respond to customer enquiries or handle their complaints.

#### What is CRM?

At one level, Customer Relationship Management, or CRM means just what it says: it's how a business manages its relationship with its customers. In practice, we mostly talk about CRM in the context of using software or third party services to organise, automate and expedite interactions with customers. This can range from a simple spreadsheet of customer details, all the way to third party tools which automate the management of the relationship with customers, leaving the business to focus on production and delivery.

For the purposes of our survey 'CRM software or services', was given its normal, everyday definition by SMBs.

Currently, **only 22% of SMBs use CRM software or services** to deal with customer enquiries or complaints, with another 5% planning on adopting within the next five years. These SMBs typically interact with customers in a variety of other ways as well, with an average of six different customer communication channels, compared with just four for the average SMB.

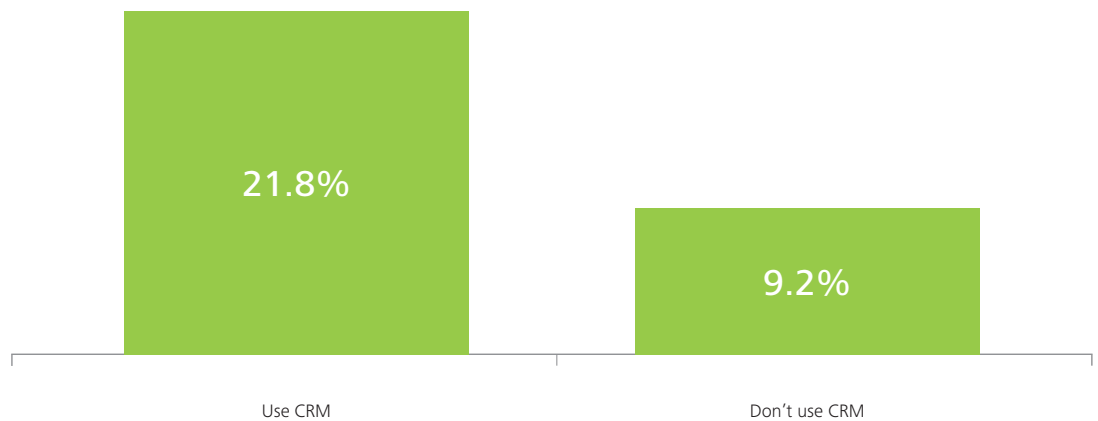
So CRM typically forms part of a broad portfolio of customer engagement strategies. On average, CRM users receive around 14% of their customer enquiries via their CRM service, with the remainder fairly evenly split across in-person, telephone, email and website enquiries, and a smaller number via mobile apps and social media.<sup>24</sup>

This multichannel approach to engaging with customers appears to be effective. SMBs that have more means of dealing with consumers respond more quickly to their complaints and experience faster growth in revenue.

But CRM is more than just one part of a multi-channel communication strategy. In addition to doing a better job of responding to customer complaints quickly, CRM-users were also more committed to improving their response time in the future, which is vitally important given increasing customer options and expectations. These differences led to faster revenue growth than for non-users – every 10% increase in CRM usage leads to a 1 percentage point increase in revenue growth or \$30,000 a year for an average SMB. These links between CRM, improved complaint handling and increased revenue growth suggest that CRM-adoption is driving improved revenues, rather than the other way around.<sup>25</sup> Chart 3.4 shows the clear differences in revenue growth rate between CRM-users and SMBs which don't use it at all.

Chart 3.4: SMBs that use CRM have more than double the revenue growth rate of those that don't

Average revenue growth rate (%)



**Overall, only 3% of SMBs dealt with customer enquiries using online CRM platforms,** compared with 33% in person and 21% over the telephone. But SMBs realise that this will change. They predict that telephone enquiries and complaints will fall by 23% over the next five years, with large (40% plus) rises in mobile, social media and online contacts. Despite the positive results for CRM users, though, predicted increases in its use are more modest, at around 8%, over the next five years.

So while CRM software and services appear to deliver faster response times leading to faster growth,

most SMBs don't see it as a big part of their future – focusing instead on growth in social media, mobile and online channels.

SMBs will need to determine how they can handle this volume of new enquiries via extra channels without letting customer service standards slip. Many of the 58% of SMBs who said that their current response time to customer enquiries is as fast, or faster, than it needs to be, will have to adjust their expectations to match those of modern, connected consumers.

#### Quick statistic

Every 10% increase in CRM usage leads to a 1 percentage point increase in annual revenue growth or \$30,000 a year increase in revenue for an average SMB.

# Appendix A: Background and survey methodology

To better understand how high performing SMBs are succeeding in a rapidly changing business landscape, Salesforce.com Australia commissioned Deloitte Access Economics to conduct an independent economic analysis of SMB performance in Australia and New Zealand.

Deloitte Access Economics conducted a survey of SMBs with between 5 and 95 employees in Australia and New Zealand. The aim of the survey was to estimate levels of digital engagement with customers and to determine how these varied between different types of business.

Owners and managers of 505 SMBs across a wide range of sectors completed the survey, providing details of their breakdown of sales across different channels, how they respond to customer complaints – and how quickly – and their future plans for digital engagement and IT spending.

## Sample Specification

The sample comprised owners or managers of SMBs, defined as having 5-95 employees, drawn from Australia and New Zealand and skewed towards Australia to reflect population sizes. In sampling, a spread of business industries was targeted in order to be able to compare differences by industries, as well as a spread of business sizes and owner/manager demographics.

## Data collection

The survey utilised an online data collection approach, via a research panel to draw sample and administer the questionnaire. The panel comprises individuals who have opted in to participate in surveys and has more than 200,000 active members. The online nature of this component allows a broad sample to be reached – both in terms of demography and geography. A random sample of panel members were invited by email to take part in the survey, and were first screened to identify people who matched the sample specifications. Upon completion of the survey, a small monetary reward was credited to panellists' accounts, which they can redeem as a gift voucher.

## Quality control

Standard quality control measures were used to clean the data, including removal of 'speeders' (SMBs who completed the survey too quickly to have given due attention and thought to answers), 'flat liners' (SMBs who consistently showed no variation in answers at grid questions) and inconsistent answers at 'trap questions' (similar questions at different points of the questionnaire to which similar answers would be expected).



# Appendix B: Modelling framework

## Econometrics

Econometric modelling is used to identify the relationships between SMB digital engagement and business performance.

The econometric model estimates the impact of digital engagement on revenue growth, employment, innovation, and export activities. Digital engagement levels are measured by technology availability and sophistication in the use of digital technologies among SMBs in ANZ.

Our modelling approach is primarily driven by the underlying characteristics of the data. While some variables, including innovation and employment can be categorical in nature (i.e. respondent identified one of four possible options), others such as revenue growth and export activities can be continuous integer variables. In this research, we applied a combination of linear and multinomial logistic regression framework to measure the statistical relationship between the variables.

In addition to digital engagement, other explanatory variables include:

- Size of the business
- Current employment levels
- Industry
- Location.

## Linear regression framework

Simply ordinary least squared (OLS) regression models are applied on continuous variables, including nominal revenue growth and changes in the number of employees.

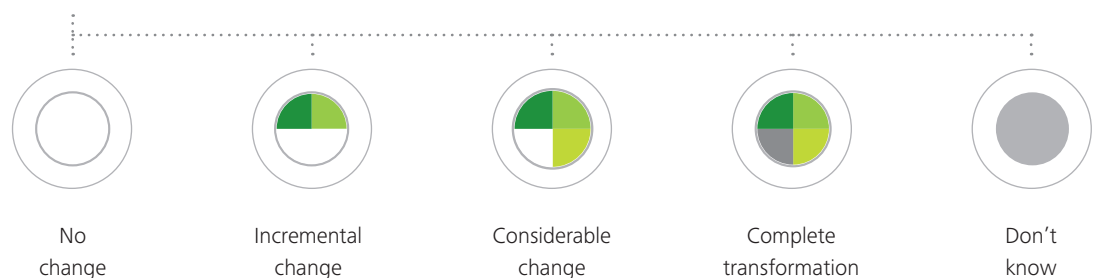
## Multinomial logistic regression framework

Multinomial logistic regression (MNL) is a nonlinear model designed to cater for categorical dependent variables. For example, the likelihood of innovation can be categorised below.



### Business innovation:

Has your company changed the way it operates in the past 12 months?



Note that normalisation of one alternative is required for identification of coefficients in MNL. In this research, we have chosen 'no change' as a general rule of thumb for selecting base alternatives. The MNL model setup is as follows:

$$\text{Alternatives: } \Pr(Y = j | x_i) = P_j = \frac{\exp(x_i' \beta_j)}{1 + \sum_{i=1}^{j-1} \exp(x_i' \beta_i)}$$

$$\text{Base Alternative: } \Pr(Y = 0 | x_i) = P_0 = \frac{1}{1 + \sum_{i=1}^{j-1} \exp(x_i' \beta_i)}$$

Where  $\beta_i$  represents the coefficient of the variable  $x_i$ ,  $P_j$  is the probability of the outcome  $j$ .

We are aware that MNL naturally assumes the 'independence of irrelevant alternative (IIA)' condition; this implies that the alternatives exhibit proportional substitution. In a more practical sense, this means that the odds ratio between alternatives is irrelevant to the availability and characteristics of other alternatives.

In our case, IIA is unlikely to hold (except for those that said 'don't know'); this is because the alternatives are ordinal in nature, and defined in such a way that they are mutually exclusive. Therefore, we would expect a disproportional substitution into closest substitutes (i.e. if 'complete transformation' was removed, the majority of respondents would choose the next closest option which is 'considerable change'). We formally test the existence for such property using the Hausman test.

The Hausman test checks if the coefficients of the restricted model are significantly different from the full model. Our results reveal no significant deviation from the original estimates.

### Causality

It is important to note the general issue of causality. It is possible that higher levels of revenue growth drives more digital engagement if strongly performing SMBs had more time or resources to undertake digital take-up. Equally, given the ways in which digital engagement helps growth – through employment, exports and innovation (as described below). However, our previous experience and case studies of SMBs suggests that it is more likely that digital engagement drives performance rather than the reverse.

### Interpretation

The reported results are the marginal impacts after controlling for other business characteristics, including size, location and industry, which means that individual experiences with rising digital engagement are likely to vary.

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